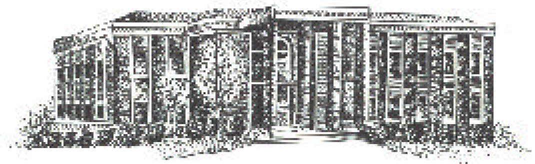
KENTUCKY

TEACHERS' RETIREMENT SYSTEM

RETIRED MEMBER EDITION



April/May 2006

Headlines

Legislative Session 2006

The January/February 2006 edition of the KTRS Newsletter reported that, in an effort to balance a very difficult General Fund Budget for the next two years, $42 million cited by the System's actuary as needed to properly fund the System was not allocated in the initial budget. In addition, because more than 20% of active KTRS members are eligible to retire, the System's actuary safely and conservatively estimated that $269 million would be needed for retiree medical benefits for the next biennium. The administration chose to consider historic rates of retirement and reduced the actuarially estimated amount needed for the cost of retiree medical benefits to $233 million. Finally, the System requested funding needed to provide a COLA that would keep pace with the projected cost of living reflected in the Consumer Price Index as established by the Congressional Budget Office.

The 2006 Session of the Kentucky General Assembly has now come to an end and we can report that funding for KTRS in the final budget is as follows:

The $42 million in funding cited by the KTRS actuary as necessary to properly fund the System was provided in the final budget on an ad hoc basis. In addition, the budget reduced the cost to KTRS of medical coverage for retirees under age 65 by $26 million over the next biennium.

The Governor and Legislature directed KTRS to allocate a portion of the employer contributions that would have gone to the retirement allowance fund to the medical insurance fund. The portion of employer contributions to be allocated to the medical insurance fund will be in an amount necessary to maintain the medical insurance program for the next two years. The state has committed to repaying the retirement allowance fund---over a ten-year period with interest---all employer contributions that are allocated from it to the medical insurance fund.

Funding for ad hoc COLAs of 0.8% and 0.6% was provided which, when added to the standard 1.5% COLA, will provide total COLAs of 2.3% for 2006-2007 and 2.1% for 2007-2008.

In addition to the budget legislation mentioned above, provisions requested by the KTRS Board of Trustees and contained in House Bill 555 became law. House Bill 555 codifies in statute the ad hoc COLAs provided for in the budget and updates the funding

continued on page 2 ...

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Legislative Session 2006 continued ...

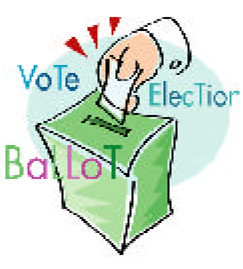
schedules for past benefit improvements. It also directs KTRS to study the possibility of using pension obligation bonds to stabilize employer contribution rates. The bill also increases the earnings limitation for members who retired under the disability provisions on or before July 1, 2002, from $27,000 to $40,000. These retirees will be able to earn in allowable, non-KTRS covered employment (when added to their disability retirement allowance) a combined income equal to the greater of $40,000 or their last annual compensation before retirement. The $40,000 limitation is the same limit set for persons who retire under the disability provisions after July 1, 2002. Also requested in House Bill 555 was language that would provide future increases in employer contributions if determined necessary by the System's actuary. Though funding was provided in the budget on an ad hoc basis for this biennium, the requested language providing future necessary increases was not in the final version of the bill.

Finally, the 2006-2008 budget includes the General Fund Surplus Expenditure Plan. Under the provisions of this Plan, the KTRS medical insurance fund would be in line to receive a portion of any surplus moneys in the General Fund undesignated fund balance on June 30, 2006 and June 30, 2007. Subsequent to these dates, funds that are certified as being available in the actual General Fund undesignated fund balance for the General Fund Surplus Account will be appropriated pursuant to the Plan.

Thanks in large part to your phone calls, letters and e-mails, KTRS was able to improve its position in the final budget and achieve the funding that it must have for the coming biennium. Thanks are also due to your elected representatives who worked with the retirement system to help address our needs.

Upcoming KTRS Board of Trustees Election

The Teachers' Retirement System is governed by a nine member Board of Trustees. Two trustees are ex-officio members, the Chief State School Officer and the State Treasurer.



The remaining seven trustees are elected by the retired and active membership. Elections are held in May of each year to fill either one or two positions on the Board. Positions are held for four-year terms and the elections are staggered. This May, the membership will elect an active member trustee and a lay trustee.

The candidates for the active teacher position are Laura Zimmerman, the incumbent, from Lexington, and Wanda Lee Meaux, from Richmond.

The candidates for the lay trustee position are Orson Oliver, from Louisville, and Robert M. Conley, the incumbent, from Paintsville.

In early May, each retired and active KTRS member will receive a ballot with information about the candidates. Retired members will receive a yellow ballot and active members will receive a blue ballot. Please select your candidates, tear along the perforation, and drop the ballot in the mail. Postage is prepaid. You may return your ballot any time during May, but no later than May 31, 2006. The Chief State School Officer is responsible for counting the ballots.

All members are urged to review the qualifications of each candidate and cast their ballot for the candidate in each category that they feel has the best qualifications to be an effective member of the Board of Trustees. The results of the election will be announced in the next KTRS newsletter.

Retirees Returning to Work
Break-In-Service Guidelines

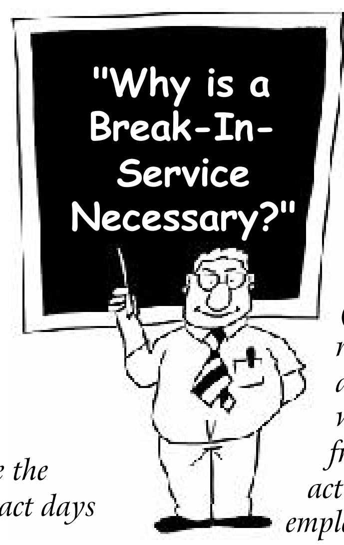
KTRS retirees who wish to return to work in a non-university or community college KTRS covered position must have a "Break-In-Service" from their last date of employment until the date they return to work after retirement has begun.

How is the last day of employment defined?

The last date of employment is the last day that duties were performed prior to retirement and not necessarily the last day of the contract period or fiscal year. For classroom teachers employed by local school districts, oftentimes the last date of employment is around June 1, while the contract period ends June 30.

How is the length of the required Break-In-Service determined?

The required Break-In-Service depends not only upon whether the retiree returns to work in a full-time position or in a part-time position, but also where the retiree returns to work.



Define part-time position.

A part-time position is a position where the retiree works less than 70% of the contract days in the position.

Define full-time position.

A full-time position is a position where the retiree works 70% or more of the contract days in the position.

What are the lengths of the required Breaks-In-Service?

If the retiree returns to work in a full-time position with the same employer from which they retired, then the required Break-In-Service is one year from the last date of employment.

If the retiree returns to work in a full-time position with a different employer from which they retired, then the required Break-In-Service is three months from the last date of employment.

If the retiree returns to work in a part-time position regardless of employer, then the required Break-In-Service is three months from the last date of employment.

Examples of Required Breaks-In Service:

The required Break-In-Service is not calculated in days. For example, if the last date of employment is May 26, then the retiree may not perform any duties in a part-time position with any district before August 27. Likewise, if the last date of employment is May 26, then the retiree may not perform any duties in a full-time position with a different employer from which they retired before August 27. In the case of returning to full-time employment with the same employer from which they retired, the earliest date to perform any duties is May 27 of the following year. The one-year break in service for returning to full-time employment with the employer from which they retired must be a complete break. Employment with any KTRS employer during the one year after retirement extends the length of time they may return to the same employer from which they retired.

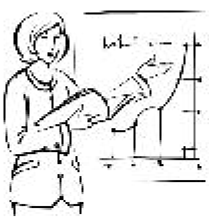
Why is a Break-In-Service necessary?

There are two equally important reasons why a Break-In-Service is necessary. The first is to keep the Kentucky Teachers' Retirement System in compliance with Internal Revenue Service (IRS) requirements. The IRS has strict rules regarding a retired teacher receiving in-service distributions. An in-service distribution occurs when an individual draws a retirement allowance from his or her employer before he or she has actually retired with a complete separation from employment. A Break-In-Service is a fundamental prerequisite in demonstrating that a retirement with a complete separation from employment has occurred. Retired members who return to work with a KTRS employer must follow these guidelines the IRS has set forth. Failure to abide by these rules can lead to the IRS disqualifying KTRS' tax-deferred status. This status is very important for members and should not be jeopardized as it permits members to make their retirement contributions to KTRS on a tax-deferred basis. The second reason for Breaks-In-Service is that without them members would naturally "retire" as soon as possible without ever missing a day of work, thereby artificially lowering the retirement age. An artificial lowering of the retirement age would create an actuarial imbalance in the retirement system and a draining of the retirement system funds that are used to pay for everyone's retirement benefits.

More Information on Medicare Part D

Previous KTRS Newsletters and special mailings have attempted to inform retirees and spouses of how the new Medicare Part D Prescription Drug Program affects their current coverage through the KTRS Prescription Drug Program. KTRS has and will continue to work with our members to determine whether the KTRS Prescription Drug Plan or one of the Medicare Part D Drug Plans is their best choice for prescription drug coverage. Please remember that the KTRS Prescription Drug Plan is a creditable plan under Part D of Medicare, meaning that the average member benefits are equal to, and in many cases, better than the standard Medicare Part D Drug Plan. This also means that as long as you have creditable coverage, there is no penalty if you do not enroll in a Medicare Part D plan by May 16, 2006, or when you turn age 65. **For the majority of our Medicare eligible members, it is in their best financial interest to remain on the KTRS Prescription Drug Plan.** However, if a member has both Medicaid and Medicare or falls into certain low-income statuses, it may be in their best financial interest to take a Medicare Part D plan. Once you have enrolled in a Medicare Part D Prescription Drug Plan, you lose eligibility for the KTRS Prescription Drug Plan and must experience a qualifying event or wait until the November and December 2006 open enrollment before reenrolling in the KTRS Prescription Drug Plan.

KTRS Retiree Analysis



As of March 27, 2006, KTRS had 4,598 service retirees that were at least 80 years old. This represents 13.8% of the total number of service retirees (33,329).

Age 100 or more *(oldest is 106)*	39	Retirees
Age 95 - 99	218	Retirees
Age 90 - 94	840	Retirees
Age 80 - 89	3,501	Retirees

APR/MAY 2006
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